

STATEMENT OF ANGELA B. STYLES
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BEFORE THE
COMMITTEE ON VETERANS AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES
FEBRUARY 5, 2003

Chairman Smith and Members of the Committee, I am pleased to appear before you today to discuss the participation of service-disabled veteran-owned small business concerns in federal contracting and subcontracting. Specifically, you have asked about the implementation of section 502 of Public Law 106-50, the Veterans Entrepreneurship and Small Business Development Act of 1999, (“the law”). This section of the law sets a 3 percent government-wide goal for participation by small business concerns owned and controlled by service-disabled veterans in federal contracting and subcontracting. Before addressing the specifics of how we are implementing this requirement, I would like to briefly discuss our small business agenda in the procurement arena.

Procurement and Small Business

This Administration is working hard to place the interests of small businesses and new entrants to the procurement system at the forefront of our policy agenda. We seek to create a dynamic atmosphere where competitive and innovative small businesses can flourish and apply their talents to the many pressing needs facing our government. We are exploring ways of restructuring the system to allow for greater participation, competition and diversity of capabilities that spring from this underutilized segment of our economy. For small businesses,

the primary issue is access to the federal marketplace and the opportunity to compete. And, for us, as policymakers, the issue is a dramatically reduced contractor base, and the mounting lost-opportunity cost of choosing among fewer firms with fewer ideas and innovations to deliver products and services at lower prices.

We have already taken a number of significant steps to establish a more competitive environment and one in which small businesses can flourish.

1. Bundling

We are increasing federal contracting opportunities for small businesses by eliminating unnecessary contract bundling. Contract bundling is the consolidation of agency procurement requirements into contracts that are unlikely to be suitable for performance by a small business because of the size or performance requirements of the contract. Although contract bundling can serve a useful purpose, the negative effects of contract bundling over the past 10 years cannot be underestimated. Not only are substantially fewer small businesses receiving federal contracts, but the federal government is suffering from a smaller supplier base. When small businesses are excluded from federal opportunities through contract bundling, our agencies, small businesses, and the taxpayers lose.

As we have broadened the scope of requirements into fewer and fewer contract vehicles over the past decade, small businesses have become increasingly marginalized. The pool of

small business contractors receiving new contract awards has declined from 26,000 in 1991 to about 11,600 in 2001.

To aggressively resolve this problem, the Administration unveiled a strategy to address contract bundling at the end of October. With successful implementation of this strategy, we will have reduced a significant barrier to entry and, in doing so, allowed small businesses to bring their innovation, creativity, and lower costs to the federal table.

Currently, my office is heading an interagency task force to develop regulations that will amend both the Federal Acquisition Regulation (FAR) and Small Business Administration (SBA) bundling regulations to help implement the strategy. Proposed regulations were published in the *Federal Register* on January 31, 2003. Our office will continue to take a lead role in developing these regulations, through resolution of public comments and issuance of final rules.

Our "hands-on" involvement in this effort does not end with regulatory development. To ensure agency accountability, we have asked agencies to report quarterly to the Office of Management and Budget (OMB) on the status of their efforts to address contract bundling issues. Our office will be monitoring agency actions, and we will provide additional guidance or revise reporting requirements as necessary.

2. Competitive Sourcing

We are opening the government's commercial activities to expanded competition between public and private sources. Today, most of the 850,000 full-time-equivalent employees that agencies have identified as performing commercial activities (i.e., nearly half of all federal employees) are insulated from the dynamics of competition.

To improve and expand competition for these activities, OMB has proposed significant revisions to OMB Circular A-76, the process to determine whether commercial activities will be performed by public or private sources. Among other things, the proposed revisions, which were publicly announced in November and are available at www.omb.gov, would eliminate

exceptions that have permitted federal agencies to provide services to one another on a sole-source basis without considering the capabilities of the private sector. This step alone should benefit small businesses. On average, small businesses receive more than 60 percent of the awards made to private sector firms through the A-76 public-private competition process.

3. Competition Practices

We are working to ensure that the benefits of competition are routinely applied in our everyday buys. At the request of the President, the Office of Federal Procurement Policy (OFPP) is leading an interagency working group to review agency competition practices. The review is based, in part, on recent evaluations conducted by the GAO, agency inspectors general, and agency management, that have looked at acquisition planning, pricing practices, and use of limited competitions among pre-qualified contractors. The group is in the process of developing recommendations to ensure that current procurement flexibilities facilitate access to the full range of marketplace capabilities -- especially those of small businesses -- and are used effectively to consistently reap good quality at lower cost to the taxpayer.

Implementation of Section 502

Now let me turn to your questions about the expansion of opportunities for service-disabled veteran-owned small businesses in the federal marketplace and, specifically, the implementation of section 502 of the law. To fully appreciate how the goaling requirement is being addressed by the Administration, it is useful to review the respective responsibilities of the SBA and my office for small business issues.

OFPP is responsible for providing overall direction of government-wide procurement policies, regulations, procedures, and forms for executive agencies and to promote economy, efficiency, and effectiveness in the procurement of property and services by the executive branch of the federal government. The SBA has responsibility under section 15(g) of the Small Business Act (15 U.S.C. 644(g)) for overseeing the federal small business procurement goaling process, including the government-wide, cumulative 3 percent goal for participation by small businesses owned and controlled by service-disabled veterans in federal contracting and subcontracting. OFPP's role in the goaling process is limited to gathering statistics and, if necessary, negotiating disagreements on goaling between SBA and the procuring agency.

OFPP worked with the Department of Defense, the National Aeronautics and Space Administration, and the General Services Administration to draft the federal regulations implementing section 502. Specifically, the FAR has been amended to (1) define the term "small business concern owned and controlled by service-disabled veterans"; (2) establish that service-disabled veteran-owned small businesses are afforded maximum practical opportunity to participate in the performance of contracts and subcontracts awarded by any federal agency; (3) establish a 3 percent government-wide goal (based on the total value of all prime contract and subcontract awards) for participation by service-disabled veteran-owned small businesses; and (4) add data collection requirements for prime and subcontract awards to service-disabled veteran-owned small business concerns.

The agency-specific goaling requirements are implemented through goaling letters and guidance issued to the agencies by SBA. Goals are calculated as the result of a negotiation between SBA and a procuring agency based on what is intended to realistically reflect the potential of small businesses to perform contracts and subcontracts of the agency. SBA also reports to Congress and the President on each agency's progress toward achieving the goal in the previous year.

I have attached to my testimony detailed statistics from the Federal Procurement Data System (FPDS) covering the years since the start of the government-wide goaling requirement. These statistics, provided on a quarterly basis, cover participation in federal contracting by both veteran-owned small businesses and service-disabled veteran-owned small businesses for fiscal year 2001 and the first three quarters of fiscal year 2002.

In summary, the statistics reveal that during fiscal year 2001 service-disabled veteran-owned small businesses were awarded 9053 contract actions for a total of \$554,554,000; this represents approximately .24% of the total dollars awarded by federal agencies during that period. During fiscal year 2001, service-disabled veteran-owned small businesses received \$74,652,719 in subcontracts. For the first three quarters of fiscal year 2002, up to and including the third quarter, FPDS reports that service-disabled veteran-owned small businesses were awarded 2735 contract actions for a total of \$143,611,000; this represents approximately .10% of the total dollars awarded by federal agencies during that period. Subcontracting numbers are not available yet for fiscal year 2002 because the numbers will not be submitted by the agencies until March 2003.

With regard to other veteran-owned small businesses, FPDS reports that in fiscal year 2001 these small businesses were awarded 79,419 contract actions for a total of \$564,463,000;

agencies during that period. During the same period, veteran-owned small businesses received \$533,029,664 in subcontracts. For the first three quarters of fiscal year 2002, veteran-owned small businesses were awarded 27,562 contract actions for a total of \$526,055,000; this represents approximately .366% of the total dollars awarded during that period. I am encouraged by what appears to be a significant increase from 2001 to 2002 for veteran-owned small businesses. Again, subcontract numbers for fiscal year 2002 will not be available until March 2003.

Based on historical trends, we can anticipate a significant increase in spending during the fourth quarter and a commensurate increase in contract awards for service-disabled veterans. However, the statistics for the first three quarters of fiscal year 2002 as compared to fiscal year 2001 are troubling. For the first three quarters of 2001, firms owned by service-disabled veteran-owned small businesses received \$297,643,000 in contracts. In comparison, for the first three quarters of fiscal year 2002, small businesses owned by service-disabled veterans received \$143,611,000 in contracts.

Frankly, I find these numbers troubling. While numbers below 3 percent are not surprising for the first years after the statutory goal was established, we clearly have issues that we must resolve if the fourth quarter statistics for 2002 reveal a percentage decline from 2001 to 2002.

Conclusion

This Administration is committed to providing small business opportunities in our federal procurement system, particularly opportunities for the very people that have fought and suffered for the principles behind our competitive enterprise system. Although these goals may not be easy to accomplish, we must take greater advantage of the skills and ingenuity of our small business community. Whether unbundling contracts, opening the government's commercial activities to the synergies of the marketplace, or simply making sure competition is used more, we are determined to provide opportunities for the nation's small business contractors who are able and willing to supply quality goods and services at competitive prices.

I look forward to working with this Committee to ensure the availability of adequate opportunities for small businesses owned by service-disabled veterans. This concludes my prepared remarks. I am happy to answer any questions you might have.